

Ms. Ann E. Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 2055

RE: Comments regarding existing property assessments in commercial real estate finance relative to the Federal Reserve Board Principles for Climate-Related Financial Risk Management for Large Financial Institutions

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Agency/Docket Number: Docket No. OP-1793

Dear Ms. Misback,

Thank you for the opportunity to provide comments in response to Federal Reserve Board's Principles.

This comment is designed to enhance Federal Reserve's awareness of the work being performed by an ASTM International Task Group developing a standard guide for the assessment of physical climate risks for commercial real estate assets, which is anticipated to be approved and published this year. We believe these physical risk assessments, known as Property Resilience Assessments (PRAs), will be one of the most important tools commercial real estate (CRE) investors and stakeholders will utilize to understand and manage the physical risk of climate hazards to individual real estate assets. Such resilience assessments are already occurring throughout the property investment marketplace, and this related ASTM standard is being designed by current and future users and practitioners to bring clarity and consistency to all parties.

Similar comments were submitted by ASTM International to the Securities and Exchange Commission (SEC) on June 17, 2022, as available here <https://www.sec.gov/comments/s7-10-22/s71022-20131586-301952.pdf>, as well as by the Commercial Real Estate Finance Council (CREFC) in June 2021, as noted in Section II A of the letter available at <https://www.sec.gov/comments/cl12-8906774-244142.pdf>.

ASTM INTERNATIONAL

The use of ASTM-standard assessments is commonplace in property transactions. In fact, the U.S. Environmental Protection Agency (EPA) has approved the use of ASTM E1527, *Standard Practice for Phase I Environmental Site Assessment*, for potential liability protections under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA).

Commercial real estate lenders and other stakeholders are increasingly interested in measuring and disclosing climate risks of individual properties and property portfolios. A consistent, efficient, and transparent approach is critical. To meet this need, ASTM International's E06.25 Subcommittee for Whole Buildings & Facilities is developing a standard guide that will provide a

framework and best practices for this climate-risk assessment process: the *Standard Guide for Property Resilience Assessments of Buildings* (WK62996).

ASTM International is one of the largest voluntary consensus-based standards-developing organizations in the world and provides a forum for industry experts, end-users, consumers, government, and academia to come together and collaboratively produce an agreed-upon standard for a given purpose. Its standards provide a common language and reference guide, agreed-upon terminology and qualifications of professionals, for those in a given community, in this case, the commercial real estate space.

ASTM has a long history of assisting departments and agencies of the Executive branch to meet evolving regulatory needs. According to the National Institute of Standards and Technology (NIST) Standards Incorporated by Reference Database, there are over 2,500 standards from ASTM International incorporated by reference in the U.S. Code of Federal Regulations. A strong and effective reliance on the nongovernmental sector for development and maintenance of the standards in use across all sectors of our economy is supported by Office of Management & Budget (OMB) Circular A-119 and codified by Congress through P.L. 104-113 – The National Technology Transfer and Advancement Act (NTTAA) of 1995.

APPLICATION OF ASTM STANDARDS IN THE PROPERTY MARKETPLACE

The lending, investment, and consulting community collectively identified the urgent need for an ASTM resilience standard that aligns with the others that typically accompany CRE decision-making, such as the *E1527 Standard Guide for Environmental Site Assessments: Phase I Environmental Site Assessment Process*, *E2018 Standard Guide for Property Condition Assessment: Baseline Property Condition Assessment Process*, and *E2026 Standard Guide for Seismic Risk Assessment of Buildings*.

Financial institutions, real estate investors, and developers, as well as the providers of building assessments, including consulting, engineering, hazard screening, and modeling companies, and climate-related disclosure frameworks (such as BREEAM) are involved with the effort. In addition, representatives of the American Society of Civil Engineers, which is influential with respect to building codes, Institute for Sustainable Communities, U.S. Resiliency Council, and National Center for Atmospheric Research, have participated. Representatives of the C-PACE lending community, Fannie Mae, and Freddie Mac also are involved.

Property owners, investors, operators, developers, lenders, and those that support these various interests are experiencing greater pressure to evaluate and disclose climate risk at the property level in coordination with existing due diligence processes. Motivations for obtaining this information may include risk management, alignment with sustainability frameworks, disclosure requirements from capital sources or shareholders, concerns about rising insurance costs, evolving regulatory requirements, changing property values, and future exit strategies. These climate risk assessments are already occurring, so a standardized approach is essential.

Federal Reserve awareness that these activities are already occurring and are being standardized in the context of commercial real estate lending could be helpful to everyone involved in implementing the Principles.

The PRA standard focuses on assessing the acute and chronic physical risks to a building or property. Aspects of the standard could also be applied to building portfolios.

The PRA framework is a ground-up approach for assessing climate hazard risks and mitigants. It will be useful in applications such as due diligence mechanism when buying or lending on real estate, similar to the aforementioned assessments based on ASTM standards. It will also be useful for lending institutions when determining climate risks when making critical decisions on how to deal with defaulted loans.

However, in lieu of on-site engineering-type analyses of individual properties, sometimes more top-down climate risk modeling will be more appropriate and practical, depending on the use case. Screening a portfolio for exposure to increasing weather hazards may suffice for certain uses. Monitoring portfolios of real estate on an ongoing basis may be done with broad modeling assumptions. Credit risk modeling may build off the framework of the ASTM PRA guidelines for climate hazard risk for real estate, but layer in other important financial considerations and portfolio analytics to determine climate risk exposure a given institution may have.

While climate risk modeling is useful for many purposes, property-level assessments such as the PRA are a critical component for making property-specific decisions. While PRAs are an emerging type of assessment, property-level site risk assessments are a standard practice for commercial real estate due diligence and decision-making.

THE ASTM PRA STANDARD

The PRA consists of three main phases.

1. Natural Hazard Screening Stage. Screening is conducted to determine which hazards are likely concerns for the building. This natural hazard screening involves leveraging publicly and commercially available hazard maps and models and using community-based maps and models, if available. The guide will discuss the limitations of natural hazard and climate-related maps and models, as well as the pros and cons of various types of available resources. Establishing consistent time frames and Shared Socioeconomic Pathways (SSPs)/Representative Concentration Pathways (RCPs) for banks will be critical to providing comparable outputs from this stage.

2. Risk Assessment Stage: A document review and site inspection are conducted to ascertain information about building materials, age of construction, on-site sensitivities, and vulnerabilities to identify the extent of the risk. The site inspection takes the hazards identified in the first stage and compares them to the building attributes, nature of occupancy, and any property adaptations already implemented.

- Example 1: Two buildings with similar building elevations are subject to the same type of flood risk; however, one has critical equipment in the basement, and the other has placed essential equipment above projected flood levels. The two buildings would experience the hazard differently.
- Example 2: An assisted living versus a self-storage building would be impacted by extreme heat in different ways.

Outcomes of this stage include a damage assessment, in addition to assessments of safety, functional recovery and material interdependencies. Our goal is to provide the property investor, lender, or other users with enough information to understand if there is a significant concern to the building so they can make an informed decision about the extent of the vulnerability and plan for any necessary resilience measures.

3. Basic Resilience Measures Stage. The third phase involves identifying resilience measures such as temporary or permanent flood barriers, moving critical equipment, fortifying the building against fire hazards, upgrading HVAC equipment, etc. We also expect to provide general cost range estimates for these measures and the expected improvement to the risk rating identified in the risk assessment stage.

There are sites where basic resilience best practices will not be enough. Some sites or projects may be too complex to address under the standard and will be best served by advanced engineering and design consulting.

Resilience in the context of our new standard guide is the ability of a building to withstand natural hazard impacts. A more resilient building can better withstand hazards, resulting in better outcomes for occupants, investors, developers, and lenders. A PRA will create a standardized way of communicating the hazards and vulnerabilities that may affect a building and help identify resilience measures to improve its performance.

The PRA scope does not include broader environmental, social, and governance (ESG) reporting or physical or transitional climate risk across a business or supply chain. The PRA focuses solely on physical risks to a building from natural hazards, including those caused by or made more extreme by climate change. Aspects of the standard could also be applied to building portfolios.

The ASTM PRA will include an evaluation of physical hazards that may apply to a property, including flood, wildfire, wind, and other perils. The PRA Guide will describe the minimum acceptable qualifications of assessors and minimum transparency regarding the hazard maps and models used. As such, the Guide enhances transparency and comparability. The ASTM PRA process involves not only historical risk information but also forward-looking resources relative to the projected risks associated with climate change.

CONCLUSION

Clarity and consistency are required for climate risk disclosure to function. To achieve clarity and consistency, large financial institutions will benefit from a standard to assess climate risk, vulnerability and resilience of individual real estate properties that is familiar, trusted, and easily adopted. The ASTM-standard PRA is open, transparent, and consensus-based which is needed because the science required for effective climate risk assessment at the property-level is forward-looking, complex and fast-moving.

The ASTM-standard PRA will serve as an accepted industry standard by drawing on the skills and knowledge of hundreds of professionals, including a diverse set of stakeholders and building industry experts. The ASTM-standard PRA is expected to be adopted throughout the real property investment marketplace because these types of assessments are already being performed. An ASTM Standard brings this necessary clarity and consistency to all concerned parties, and like an ASTM Standard *Phase I Environmental Site Assessment (ESA)*, the ASTM PRA can be transmitted across users.

The ability of the ASTM-standard PRA to quantify the cost in dollars of material loss due to climate risk makes the disclosure meaningful and useful for risk management. The ASTM-standard PRA and the objectives of the proposed rule are aligned, and the timing for completion of the proposed rule and the ASTM-standard PRA are well-matched.

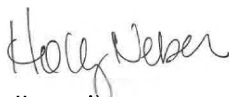
The ASTM-standard PRA is needed by investors, lenders, communities, engineers, architects, property consultants, attorneys, regulators and related parties. The data provided by the ASTM-standard PRA will support transparent risk management and reporting by large financial institutions.

Thank you for your consideration and the opportunity to submit these comments. We would welcome an opportunity to discuss its PRA with the Federal Reserve and how to best adopt rules to promote and achieve meaningful disclosure. If you have any questions or would like additional information, please feel free to reach us at hneber@aeiconsultants.com.

Respectfully,



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